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Guardian
Capital Group
Limited

Annual Report
1977



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Financial Highlights

December 31st:	1973	1974	1975	1976	1977
Year-end shares outstanding	1,606,528	1,606,528	1,379,628	1,123,662	1,070,490
Value of Fiduciary Assets Managed (\$ Millions)	171.9	151.1	187.5	199.6	226.4
Per share outstanding	\$107.00	\$ 94.03	\$135.90	\$177.63	\$211.49
Value of Company's Owned Assets (\$ Millions)	8.3	6.6	6.2	5.3	6.4
Per share outstanding	\$ 5.16	\$ 4.10	\$ 4.50	\$ 4.72	\$ 5.98
Revenues and Earnings					
Gross revenues	\$1,843,125	\$1,879,377	\$1,704,897	\$1,790,475	\$1,988,420
Operating earnings	562,875	711,028	428,936	511,480	482,858
Net gain (loss) on investments	260,211	314,015	(102,472)	45,662	440,492
Pre tax earnings	823,068	1,025,043	326,464	557,142	923,350
Net earnings	505,018	601,916	61,446	331,568	681,430
Net earnings per Guardian share outstanding	\$ 0.32	\$ 0.37	\$ 0.04	\$ 0.27	\$ 0.61

To the Shareholders

A "perfect" year for Guardian, in its current configuration, would be one in which the following events occur:

- (a) Pension fund, mutual fund and private client assets grow significantly, but in an orderly way.
- (b) Fiduciary management performance in all areas is very good, with the result that maximum bonuses are earned.
- (c) The company's owned portfolio is successfully managed with the result that it produces significant realized gains, while ending the year worth substantially more than at the start of the year, and with year-end market value being well in excess of cost.

Measured against these idealized yardsticks, the year 1977 was a reasonably good one. We did achieve a useful gain in total fiduciary assets under management. This gain was made in the pension fund and private client area, rather than in our mutual fund business. Performance of our various managed portfolios, while never, as a matter of principle, acceptable, was competitive. Our geographically unrestricted portfolios, in almost all cases, earned their maximum performance bonuses; in the pension area useful progress was made in this direction. The company's owned portfolio did, in fact, produce significant realized gains which form part of the company's earnings, while ending the year worth significantly more than at the start of the year, and more than cost.

During 1977, in fact, it was a pleasure for your management to be able to concentrate exclusively on the management of clients' portfolios, and on the management of the company's own assets. The year 1977 seems to have been the first time in some years that your management was not involved either in acquiring another business, or in discussing with third parties the possibility of being acquired. In 1977 also, we were free, happily, from the distractions of phasing out our venture capital activities, this having been completed the year before.

It is not exactly a new idea that the "cobbler should hew to his last". There may be a few "Renaissance men" who are expert in several fields – but not very many. For us our interest, and we believe our skill, lies in the management of portfolios of marketable securities, where possible on a worldwide basis, with the objective of producing exceptional returns. This is a challenging and interesting activity. We intend to concentrate on it.

On behalf of the Board
Yours sincerely,

Norman Short

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Balance Sheet

as at December 31, 1977

	1977	1976
Assets		
Investments		
Portfolio investments	\$ 4,115,824	\$ 3,685,887
50% owned company	133,194	63,644
Cash and short-term deposits	920,099	1,333,464
Receivables	690,867	438,999
Prepaid expenses	28,127	31,017
Fixed assets (Notes 2 and 3)	364,316	221,579
Deferred selling costs	15,460	36,990
Goodwill – at cost	2,759,736	2,759,736
	\$ 9,027,623	\$ 8,571,316
Liabilities		
Accounts payable and accrued liabilities	\$ 260,341	\$ 176,796
Income taxes –		
Currently payable	72,625	–
Deferred	156,050	92,900
Long-term debt (Note 3)	265,491	210,583
	754,507	480,279
Minority shareholder's interest in subsidiary	3,943	13,696
Shareholders' Equity		
Capital stock (Notes 4 and 5)		
Authorized –		
2,517,134 shares without par value		
(1976 – 2,773,100 shares)		
Issued and fully paid –		
1,123,662 shares		
(1976 – 1,379,628 shares)	5,223,138	6,413,380
Contributed surplus	634,480	603,262
Retained earnings	2,636,671	2,219,723
	8,494,289	9,236,365
Less: 53,172 shares owned by the Company		
(1976 – 255,966 shares)	225,116	1,159,024
	8,269,173	8,077,341
	\$9,027,623	\$ 8,571,316

The accompanying notes are an integral part of this financial statement.

Signed on behalf of the board
Norman J. Short, *Director*
Hunter E. Thompson, *Director*

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Earnings

for the year ended
December 31, 1977

	1977	1976
Income		
Basic management fees	\$ 1,385,738	\$ 1,406,768
Supplementary management fees	359,297	124,376
Revenue from video tapes	67,759	11,237
Sales charges (Net)	14,324	14,455
Interest and dividends	161,302	233,639
	1,988,420	1,790,475
Operating expenses	1,505,562	1,278,995
	482,858	511,480
Net gain on investments	440,492	45,662
	923,350	557,142
Provision for income taxes		
Current	248,073	199,639
Deferred	63,150	42,751
	311,223	242,390
	612,127	314,752
Equity in net earnings of 50% owned company	69,550	17,068
	681,677	331,820
Minority interest	247	252
Net earnings for the year	\$ 681,430	\$ 331,568
Earnings per share (Note 6)	61¢	27¢

The accompanying notes are an integral part of this financial statement.

Consolidated
Statement
of Retained
Earnings

for the year ended
December 31, 1977

	1977	1976
Balance – Beginning of year	\$ 2,219,723	\$ 1,888,155
Add:		
Net earnings for the year	681,430	331,568
	2,901,153	2,219,723
Deduct:		
Tax paid on undistributed income	39,750	—
Dividend	224,732	—
	264,482	—
Balance – End of year	\$ 2,636,671	\$ 2,219,723

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Changes in Net Assets

for the year ended
December 31, 1977

	1977	1976
Net assets – Beginning of year	\$ 8,091,037	\$ 9,327,263
Increased by –		
Net earnings for the year	681,430	331,568
Minority interest in earnings	247	252
Issue of subsidiary's share purchase warrants	–	460
	681,677	332,280
Decreased by –		
Acquisition of Company's capital stock (Note 4)	225,116	1,503,024
Deduct: Capital stock re-issued	–	344,000
	225,116	1,159,024
Tax paid on undistributed income	39,750	–
Dividend	224,732	–
Acquisition of subsidiary's capital stock from minority interest	10,000	398,435
Acquisition of Company's share purchase warrants	–	11,047
	499,598	1,568,506
	182,079	(1,236,226)
Net assets – End of year	\$ 8,273,116	\$ 8,091,037
Represented by –		
Shareholders' equity	\$ 8,269,173	\$ 8,077,341
Minority shareholder's interest in subsidiary	3,943	13,696
	\$ 8,273,116	\$ 8,091,037

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Contributed Surplus

for the year ended
December 31, 1977

	1977	1976
Balance – Beginning of year	\$ 603,262	\$ 414,177
Add:		
Gain on cancellation of Company's capital stock acquired from shareholders (Note 4)	31,218	199,672
Issue of subsidiary's share purchase warrants	–	460
	634,480	614,309
Deduct:		
Acquisition of Company's share purchase warrants	–	11,047
Balance – End of year	\$ 634,480	\$ 603,262

The accompanying notes are an integral part of this financial statement.

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Portfolio
Investments

as at December 31, 1977

	1977			1976		
	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value
Quoted investments						
Large companies						
Ashland Oil	3,000	\$ 54,519	\$ 52,500	—	\$ —	\$ —
Bell Canada	—	—	—	2,200	103,758	105,600
Home Oil "B"	8,000	289,918	351,000	—	—	—
Other	—	199,245	231,218	—	199,245	203,007
Medium sized companies						
Asbestos Corporation	—	—	—	1,500	43,379	34,125
Canada Tungsten	5,000	51,745	47,500	—	—	—
Canadian Occidental	6,000	112,549	110,250	—	—	—
Canadian Realty – Units	5,000	37,097	40,000	—	—	—
Dylex – Pfd. "A"	8,800	62,281	70,400	—	—	—
Farinon Corporation	103,350	1,238,558	1,116,924	103,350	1,238,558	1,303,760
Global Communications – Units	1,000	39,976	39,000	—	—	—
Interway Corporation	5,000	59,447	184,680	10,000	103,825	127,412
I.W.C. Communications	57,100	105,235	99,925	50,000	95,013	95,500
Kerr Glass	—	—	—	8,000	137,325	130,187
Lacana Mining	10,000	39,500	34,500	—	—	—
Livingston Industries	9,000	148,439	182,250	—	—	—
Magna International – Common	2,000	24,889	35,500	—	—	—
Magna International – "A"	7,000	113,346	140,875	—	—	—
Management Assistance	18,000	144,705	199,454	—	—	—
National Medical Enterprises – "A"	10,000	71,299	183,312	14,000	137,248	183,674
Ocelot Industries – "A"	8,800	54,786	134,200	10,000	62,258	88,750
Ocelot Industries – "B"	4,200	25,857	64,050	25,000	153,910	221,875
Pan Continental Mining	7,000	22,066	110,180	7,000	22,066	61,390
Readers' Digest	10,000	121,443	135,000	10,000	121,443	115,000
Sundance Oil	6,000	126,259	156,773	—	—	—
Xtra Inc.	5,000	107,201	158,004	7,000	84,606	113,913
Small companies						
Auric Resources	260,000	46,057	101,400	300,000	53,140	66,000
Bulora Corporation	—	—	—	63,300	63,300	8,704
Cultus Pacific	315,000	22,957	31,500	315,000	22,957	39,690
Interpublishing	30,000	90,000	90,000	100,000	100,000	108,332
Multiple Access	—	—	—	10,000	34,445	33,000
Trinity Resources	135,000	312,963	486,000	515,258	470,380	206,103
Gold						
Certificates – Ounces	1,500	260,553	272,916	—	—	—
		3,982,890	\$4,859,311		3,246,856	\$3,246,022

	1977		1976	
	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Number of Shares or Par Value	Average Cost Less Allowance For Losses
Brought forward		\$3,982,890		\$3,246,856
Other investments – unquoted				
Instinet	26,500	39,750	26,500	39,750
Global Communications				
– Interest debentures (1.2% above prime) 15/01/83	–	–	\$ 200,000	201,163
– Income debentures – 15/01/98	–	–	\$ 2,000	2,000
Ziebart Corporation – 9% debentures – 31/12/77	–	–	\$ 100,000	100,000
Other	–	93,184	–	96,118
Total portfolio investments		\$4,115,824		\$3,685,887

The accompanying notes are an integral part of this financial statement.

Auditors' Report to the Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statement of portfolio investments of Guardian Capital Group Limited and subsidiary companies as at December 31, 1977 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1977 and the results of their operations and the changes in their net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Smith, Nixon & Co.
Chartered Accountants
Toronto, February 17, 1978

**Notes to
Consolidated
Financial
Statements**

for the year ended
December 31, 1977

1 Summary of significant accounting policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) 50% owned Company

The Company has used the equity method of accounting to reflect its investment in a 50% owned company.

(c) Portfolio Investments

The portfolio investments are recorded at average cost, less any allowance for losses. The allowance for losses relates to those investments which have declined in value and show no reasonable expectation of recovery.

(d) Fixed Assets

The majority of the furniture and equipment is depreciated on the diminishing balance method at the rate of 20% per annum.

Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Revenue-producing video tapes are amortized on a straight-line basis over three years, which is the estimated period during which any significant income from the tapes can be anticipated.

(e) Deferred Selling Costs

The deferred selling costs represent the unamortized cost of prepaying obligations under long-term sales contracts. These costs are amortized over the period which remained under these contracts at the time of their renegotiation.

(f) Goodwill

The excess of cost of shares in subsidiaries over the net book value of the assets acquired, which arose prior to March 31, 1974, does not, in the opinion of management, require amortization at this time.

(g) Income Taxes

The companies have deferred to future periods the income tax resulting from claiming deductions for tax purposes in excess of the amounts charged in the accounts.

(h) Management Fees

The Company and certain subsidiaries provide management and investment advisory services to mutual funds and investors on a contract basis in consideration for management fees.

Under some contracts the companies are entitled to earn supplementary fees if the managed portfolio outperforms certain stock market averages.

The income from fees is recognized in the accounts on a time basis over the periods of the contracts.

(i) Foreign Exchange

Purchases and sales of foreign investments and income and expenses have been converted to Canadian dollars at the rate of exchange prevailing on the respective dates of such transactions.

Short-term notes in foreign currencies held at the year end have been converted to Canadian dollars at the rates of exchange prevailing at the balance sheet dates.

2 Fixed assets

	1977	1976
Furniture and equipment – at cost	\$ 195,471	\$ 187,917
Leasehold improvements – at cost	72,904	72,904
Revenue-producing video tapes – at cost	330,423	119,766
	598,798	380,587
Accumulated depreciation and amortization	234,482	159,008
	\$ 364,316	\$ 221,579

The depreciation and amortization expense for 1977 and 1976 was \$75,474 and \$38,365 respectively.

3 Long-term debt

	Outstanding at December 31	
	1977	1976
(a) 7½% subordinated convertible debentures of a subsidiary company due January 10, 1978	\$ 135,000	\$ 135,000
These debentures, which were convertible at the holder's option into shares of Guardian Capital Group Limited, on the basis of \$9.20 per share, were redeemed on January 10, 1978.		
The interest expense was \$9,843 and \$10,443 in 1977 and 1976 respectively.		
(b) Interest free notes payable – secured by revenue-producing video tapes	130,491	75,583
The notes outstanding at December 31, 1977 are due in amounts of \$117,600 and \$12,891 in 1983 and 1988 respectively. However, payments are to be accelerated to the extent that revenues from the video tapes are required to be applied against the balances outstanding.		
	\$ 265,491	\$ 210,583

4 Capital stock

During the year, the company acquired 53,172 of its own shares for \$225,116 cash and also cancelled 255,966 shares which it had acquired in 1976. Such cancellation, which reduced the number of authorized and issued shares accordingly, gave rise to a gain of \$31,218 which was included in contributed surplus. The 53,172 shares acquired in 1977 have been cancelled subsequent to the year end.

5 Share purchase warrants

As at December 31, 1977, 40,416 authorized but unissued shares of the Company's capital stock were reserved for issuance upon the exercise of 40,416 share purchase warrants at \$8 per share on or before December 31, 1983.

During the year 20,000 warrants exercisable at \$7 per share expired.

6 Earnings per share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not materially different from the basic earnings per share.

7 Long-term lease commitment

The minimum annual rental under a lease agreement which terminates on August 31, 1982 is approximately \$57,000.

8 Losses available for income tax purposes

A subsidiary company has unused accumulated non-capital losses for income tax purposes of approximately \$92,000, the details of which are as follows:

Year incurred	Expires	Amount
1973	1978	\$ 87,000
1974	1979	3,000
1975	1980	2,000
		\$ 92,000

In addition, as at December 31, 1977, that subsidiary had net capital losses of \$517,000 which can be carried forward indefinitely and applied against taxable capital gains.

9 Statutory information

The aggregate remuneration of directors and senior officers for the year ended December 31, 1977 was \$410,028 (1976 – \$325,669).

The amortization of deferred selling costs amounted to \$21,530 (1976 – \$25,690).

10 Dividends

The Company is subject to dividend restrictions under provisions of the Federal Anti-Inflation Act and Regulations.

11 Comparative figures

Certain comparative figures have been reclassified in order to conform with the current year's presentation. Net earnings have not been affected by such reclassification.

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario M5E 1H3

Officers and Directors

James F. Cole, *Director*

A. George Dragone, *Director*

William Filipiuk, *Director*

Paul B. Helliwell, *Director*

Robert L. Miller, *Director*

Gurston Rosenfeld, *Vice President & Director*

Norman J. Short, *President & Director*

Hunter E. Thompson, *Vice President & Director*

Roger D. Wilson, *Director*

C. Verner Christensen, *Secretary-Treasurer*

Elinor Crighton, *Assistant Secretary*

Registrar and Transfer Agent

The Canada Trust Company

110 Yonge Street, Toronto, Ontario

Banker and Custodian of Securities

The Canadian Imperial Bank of Commerce

7 King Street East, Toronto, Ontario

Auditors

Smith, Nixon & Co.

372 Bay Street, Toronto, Ontario

Legal Counsel

Day, Wilson, Campbell

250 University Avenue, Toronto, Ontario